

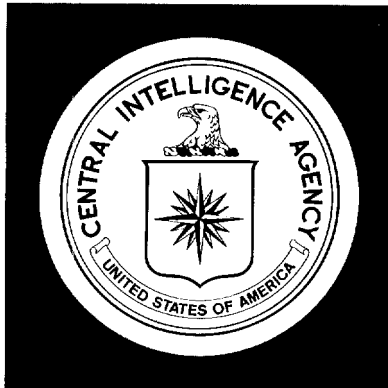
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# *WEEKLY SUMMARY*

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29 June 1973  
No. 0376/73

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and there-  
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# THE KOREAS: NEW LINES

2 [The changes in great power relationships in the Far East and the emergence of Pyongyang on the international scene have led to a major shift in South Korea's foreign policy. On 23 June, President Pak Chong-hui announced that Seoul no longer opposed North Korean participation in the annual Korean debate in the UN and endorsed simultaneous entry of the two Koreas into the international organization. Pak observed that the new South Korean policy would have a positive impact on bilateral North-South talks on reunification, which were deadlocked because of fundamental differences between the two sides. The President described the new policy as a reaffirmation of Seoul's desire to establish contact with the major Communist powers. He said that South Korea has an "open door" toward relations with all nations and called for reciprocity from Communist countries.]

3 [Subsequent statements by Prime Minister Kim Chong-pil made it clear that Seoul is prepared to accept termination of the UN special political role in Korea as represented by the UN Commission for the Unification and Rehabilitation of Korea, but that Seoul hopes to preserve the UN Military Command.]

4 [The South Korean action is also designed to promote Seoul's longer range objectives. From the outset of the negotiations with the North, Seoul has aimed at reaching a formal arrangement with Pyongyang that would preclude the possibility of North Korean aggression and provide for the continuation of an independent South Korea. UN membership for both Koreas would provide a strong precedent for a de facto "two Koreas" situation, which, like the German model, would not rule out eventual unification.]

## Pyongyang Responds

1 [Pyongyang's reaction was quick and authoritative. It indicates that for the time being Pyongyang intends to stand pat. Kim Il-sung ruled out membership for both Koreas in the UN under present circumstances, but said he would accept observer status in any UN debate of the Korean question. Kim condemned the South Korean membership proposal as intended to preserve the division of Korea.] [Pyongyang wishes to preserve the prospect of a unified Korea on Communist terms. Kim did stop short of categorically ruling out eventual dual UN membership. The North Korean leader said that, prior to UN entry, there should be a "confederation" of the two states into a single republic or at least a formal acceptance of the one Korea concept. This is a proposal Kim has made before, and it gives him considerable flexibility in dealing with the issue in negotiations with the South.]

4 [Both Koreas and their respective allies will now be trying to drum up support for their positions. North Korea has formally requested permission to establish an observer mission at UN headquarters in New York. If it gets such a mission, and there is little reason it should not, Pyongyang will be in a better position to lobby for its proposals, particularly the dissolution of the UN Military Command, which Pyongyang regards as a prelude to the withdrawal of American forces from the South. South Korea's more moderate policy is, however, likely to prove an effective counterweight if Pyongyang raises issues beyond those with which Seoul has indicated it is now prepared to deal.

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# EUROPE

## GRAND OPENING IN HELSINKI

(NO SOURCES)

The foreign ministers of 33 European states, the US, and Canada will meet in Helsinki next Tuesday for the first phase of the Conference on Security and Cooperation in Europe. The second phase will involve working groups meeting in Geneva, and, if Moscow has its way, the third will bring together political leaders "at the highest level." For the Soviets a finale at the summit would be a fitting conclusion to the conference, which is itself the culmination of years of Soviet effort.

The ministerial meeting will be short—probably only about a week—and there is little expectation that serious negotiation will be attempted. Each country will state its general position on what European security means, and those with special interests will have an opportunity to raise them. For instance, Malta will push for the representation of Africa's Mediterranean states, and Romania will put forward its particular views on interstate relations and military aspects of security. Soviet Foreign Minister Gromyko won the right to make the first of these set-piece statements when a Soviet representative showed up at 5 A.M. on the day the speakers' list was opened.

One important task confronting the ministers will be setting the opening date for the second phase of the conference. The Soviets would like to complete all phases of the conference as quickly as possible, but most Western countries would prefer to string out the process and not even begin working-level talks until September. If the foreign ministers are not able to resolve this problem, it will have to be left to further diplomatic consultation, and a delay until September seems likely.

While other problems will undoubtedly crop up, considerable progress was made on substantive issues during the four often intensive preliminary rounds that lasted from November until 8 June. These rounds resulted in fairly de-

tailed "mandates," which probably foreshadow the declarations that will eventually emerge from the conference. Furthermore, the atmosphere in Helsinki will be considerably improved by Moscow's formal agreement to begin talks on force reductions in October.]

## WIND-UP IN VIENNA

[On 28 June the representatives of 19 NATO and Warsaw Pact countries announced they had agreed to open negotiations on 30 October in Vienna on the mutual reduction of forces and armaments and associated measures in Central Europe.] The draft communique was completed three weeks ago, but the Soviets were reluctant to agree to a date that would permit force reduction negotiations to open prior to the completion of all phases of the Conference on Security and Cooperation in Europe. After the Washington summit, they have apparently accepted that the two sets of talks will overlap.]

[The communique incorporates East-West compromises on three major questions: participation and procedures, title, and agenda. The same participation and procedures that were worked out for the preparatory talks will govern the full negotiations. This means that 11 delegations will make the decisions, while all 19 will be able to circulate papers and participate equally in discussions. It also means that the agreement to disagree on the status of Hungary will be carried over to the negotiations. At some point, the West will attempt to include Hungary in "associated measures" such as constraints to ensure that Soviet troops withdrawn from the reduction area are not simply shifted to Hungary.]

[As to a title for the talks, the West had to abandon all reference to the term "balanced" anywhere in the communique. The Soviet representatives argued that they understood all too well that NATO means by "balanced" troop cuts a larger numerical reduction of Warsaw Pact than of NATO forces. They insisted that because the Western interpretation of the word has this

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Left to right: Soviet, British, and US force reduction talks delegates

connotation, the word was unacceptable in the communique. The Western allies did, on the other hand, get the Soviets to agree that the talks would consider "associated measures." The term is interpreted by the allies as including a variety of constraints on troop movements and activities in conjunction with reductions that the Soviets have opposed in the past.)

6 [The West gained Soviet acceptance of terminology stipulating that the arrangements will be "carefully worked out in scope and timing in such a way that they will in all respects and at every point conform to the principle of undiminished security for each party."] [This language, together with the agreement that negotiations should be conducted through an "effective and thorough approach," is viewed by the allies as a partial endorsement of the "phased" approach to the negotiations advocated by the West Germans.]

6 [The most important thing about the agreement may well be its lack of a specific agenda. The Eastern side had argued that the agenda should simply state that negotiations would deal

with reduction of forces and armaments in Central Europe and that working groups would be required during the negotiations. The West had in mind a more detailed agenda, but many of the individual items would have been resisted by the Soviets. The West decided that rather than allow the Soviets to pick and choose among the items, it would be better to avoid a definitive agenda. The final communique incorporates the agenda concepts the Soviets proposed, but also provides that "any topic relevant to the subject matter may be introduced for negotiation by any of the states that will take the necessary decisions." [The way is thus clear for direct participants to add to the list of items to be negotiated.]

6 [Both East and West have much work to do to prepare their substantive positions in the three months left before the negotiations open. Due to the time squeeze, and the prime Soviet focus on the security conference, it seems unlikely that the force reduction talks will get down to serious bargaining this year.]

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# Oil: Protecting Supplies

(18-22)

Oil-consuming nations, faced with growing domestic demand, are beginning to take action to assure that their future essential petroleum needs are met.

Several consuming countries are signing long-term purchase contracts with producing countries for government-controlled oil and are moving to acquire production concessions. Japan and Brazil, in particular, have been bidding vigorously for the small but growing quantities of oil that the producing countries will be marketing over the next several years. In addition, both have acquired exploration and development rights in several potential oil-producing areas throughout the world.

Canada, in an effort to conserve supplies and to protect its domestic market from the pricing

influence of growing US demand, placed controls on exports of crude oil in March and on exports of petroleum products in June. In Western Europe, spot market prices of petroleum products have skyrocketed during the past year. European prices were in part propelled upward during the first few months of 1973 by the sharp increase in US demand. The Belgian economic minister, apparently in response to escalating prices, has been on the point of asking the Belgian Parliament to restrict exports of oil products from Belgium. So far in 1973, Western Europe has provided about ten percent of US petroleum product imports.

Concerned over the possibility of disruption of their oil supplies, the members of the Organization for Economic Cooperation and Development have begun to look into the feasibility of setting up an organization-wide emergency oil-sharing arrangement. A working group was set up and directed to report back no later than 15 October 1973. The possibility of achieving agreement on emergency oil sharing is complicated by the wide divergence in the degree to which the member countries depend on imported supplies. The US and Canada, with substantial oil production, prefer an oil sharing formula based on seaborne imports, while West European countries and Japan, which have little production of their own, prefer a formula based on domestic consumption.

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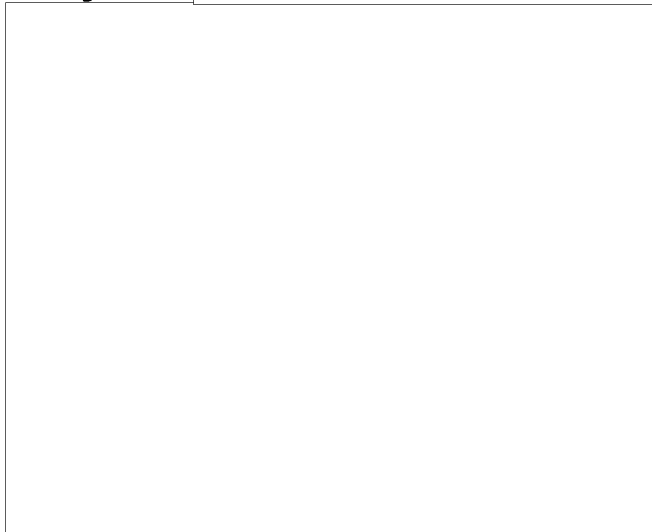
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## INDOCHINA

### SETTLING DOWN

25 [Military actions since the new agreement on the cease-fire have been largely centered in the western highlands province of Kontum and in the delta province of Chuong Thien. Elsewhere, forces on both sides are trying to solidify their defensive positions. Although there has been some repositioning of forces, there is no evidence that any major new confrontations are developing.]

23 [Indeed, the Communists and Saigon appear to be adjusting in their way to the latest peace arrangements.]



24 [While most South Vietnamese officials remain skeptical that the joint communique of 13 June will bring true peace, a note of cautious optimism has crept into the Saigon press. In contrast to the initial pessimism that followed the signing of the communique in Paris, some papers are now pointing hopefully to the reduction in the level of hostilities and to recent initiatives on the diplomatic front. Many of these speculate that the Nixon-Brezhnev meeting and the cooperative spirit among the great powers are favorable signs for peace in Indochina.]

### Troubled Buddhists

26 [Friction among the An Quang Buddhists, South Vietnam's strongest opposition group, is still hampering An Quang's efforts to strengthen its position in the cease-fire period. An Quang meets next week to choose candidates to fill two vacant leadership posts, and the preparations have led to increased jockeying for position by rival An Quang elements. One group that favors improved relations with the government wants An Quang to merge with a small, pro-government Buddhist faction. Other An Quang leaders oppose this course]

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28 [Thich Tri Quang, who remains the most influential An Quang leader, has little use for the Thieu government even though he still regards the Communists as a greater threat to the Buddhists.] Since their struggle with the Thieu-Ky government in 1966, the Buddhists have not mounted a serious political effort, and Tri Quang's policy has been to avoid any confrontation unless he considers it vital to An Quang interests. Echoing earlier remarks by Big Minh, Tri Quang recently called for a role in any peace settlement by elements independent of both the Thieu government and the Viet Cong. He also denounced what he alleged were government plans to hand over jailed An Quang followers to the Communists.]

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28 [Thus far Tri Quang has retained enough prestige to be able to keep the friction among his An Quang colleagues within bounds. Continued pressures from both the Communists and the government would make this task more difficult and could threaten An Quang's position. The Buddhists' political position seems certain to be weakened somewhat in the National Assembly since An Quang is not participating this year in the August Senate election.]

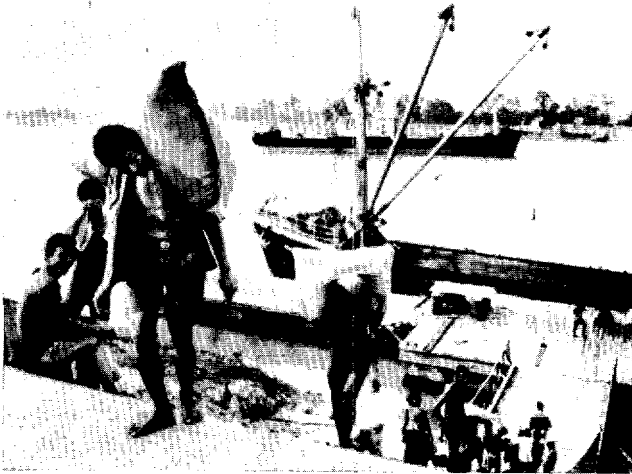
### CAMBODIA: THE PADDY PROBLEM

30 [Phnom Penh is still facing the threat of another rice crisis, largely as a result of Khmer

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Unloading rice for Phnom Penh

convoys, the government will require substantial imports to stretch rice reserves until the autumn harvest. Consequently, Phnom Penh has again had to look to Bangkok and Saigon for help. After drawn-out discussions, the Thais finally agreed this week to ship 5,000 tons of rice and will soon decide if another 5,000 tons can be sent by mid-July. There is a possibility that Thailand will be able to provide Cambodia with another 25,000 tons from its summer crop, but Bangkok will not know until August if internal requirements will permit the export of such an amount. Saigon has agreed to loan the Cambodians 20,000 tons of rice. The initial shipments of this rice are due to begin moving up the Mekong River late next week.

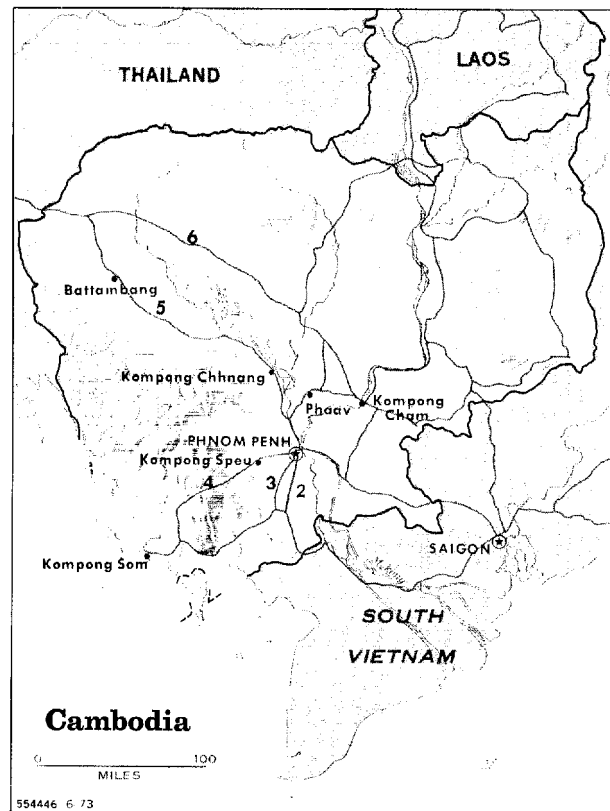
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Communist pressure against Route 5. At mid-week, Communist attacks again closed that highway some 35 miles north of Phnom Penh. The actions prevented the government from resuming the regular movement of truck convoys between the capital and Battambang Province, where some 25,000 tons of rice are available. In the southwest, convoys are bringing some rice up Route 4 from the seaport at Kompong Som to Phnom Penh despite Communist harassing attacks against several villages just south of the highway city of Kompong Speu.]

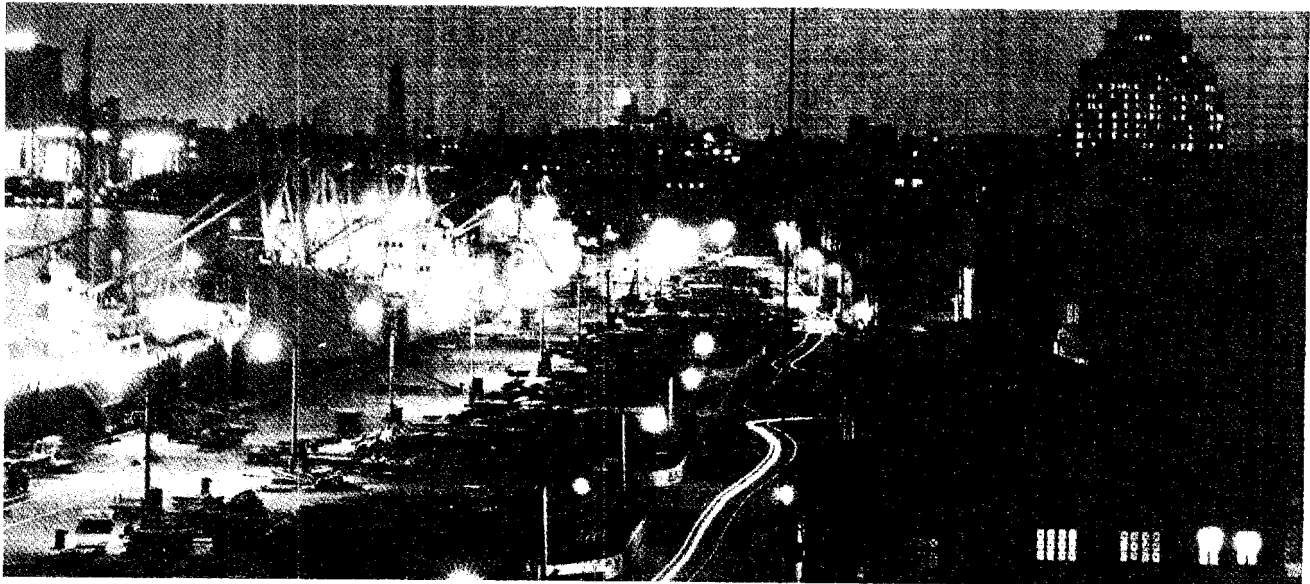
30 [Government efforts to regain control over sections of other highways made no progress. South of Phnom Penh, clearing operations along Route 3 were stalled. In the north, the Communists consolidated their hold along Route 6 when government troops abandoned the town of Phaav—some 30 miles from Phnom Penh. The interdiction of Route 6 has cut off the government's overland access to Kompong Cham, the largest provincial capital in the north.]

#### More Imports

32 [Even if the Cambodian Army can keep  
Route 4 open and reopen Route 5 to regular rice  
33



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Shanghai harbor

### CHINA: IMPORTING MORE

(37)  
China's foreign trade should increase by 15 to 20 percent this year to approximately \$6.7 billion, a new high. As much as one half of the increase will be attributable to revaluations of major world currencies. Nevertheless, the expansion in the real volume of trade with most of China's major trading partners is expected to be substantial.

The largest increase will be with the US. Sino-US trade is likely to jump from \$90 million last year to about \$600 million in 1973. The US could surpass Hong Kong as China's number two trading partner. Peking is expected to import \$550 to \$600 million of US products, but export only \$50 to \$60 million to the US. The US has become China's primary supplier of farm products; these items will account for the bulk of US exports this year. Other US exports will include Boeing 707 aircraft, synthetic fibers, scrap metals, fertilizer, and equipment for a satellite earth station.

To compensate for a mediocre harvest last year, the Chinese are buying agricultural products for delivery in 1973 at a record pace. Imports of grain, cotton, and vegetable oils should increase from \$450 million in 1972 to more than \$1 billion this year. These imports could lead to a

substantial deficit, possibly several hundred million dollars, in China's trade with non-Communist countries. To help stem the foreign exchange drain, Peking has launched a campaign to increase remittances from Overseas Chinese and business profits earned in Hong Kong. Chinese authorities also have sharply increased prices of export items in strong demand. Peking will add a new commodity to its export list this year with the shipment of one million tons of crude oil, worth almost \$30 million, to Japan.

China's trade throughout the 1970s will be strongly affected by its expanded program of purchasing whole industrial plants from the West. In this connection, China has reverted to the practice, followed before the Cultural Revolution, of accepting medium-term credits to finance plant imports. Since 1971, Peking has signed contracts in the West for industrial plants worth between \$400 and \$450 million, more than double the value of plant purchases during the entire decade of the 1960s. The value of contracts signed thus far this year is at least \$385 million; negotiations now under way could raise the total cost of the program to more than \$1 billion. Virtually all of these purchases will be on credit.

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## BURMA: OPIUM WAR

38 [Heavy fighting in the remote northern Shan State at this time of the year is not unusual in Burma. What is unusual in these most recent engagements is that the Burmese Army is battling opium smugglers, not Communist or ethnic insurgents. The fighting is the culmination of a series of government moves aimed at ending the narcotic smuggling ventures of a semi-independent, non-Burmese, self-defense force known as KKY.]

38 [Until this year Rangoon had been willing to turn a blind eye to these activities in return for the KKY's help in fighting the several insurgencies in the Shan State. It was an agreement that worked until last fall when Prime Minister Ne Win decreed the KKY must be disbanded and melded into the Burmese Army in order to halt the movement of opium out of the Shan State. Most of the KKY defied the order and fled into the hills.]

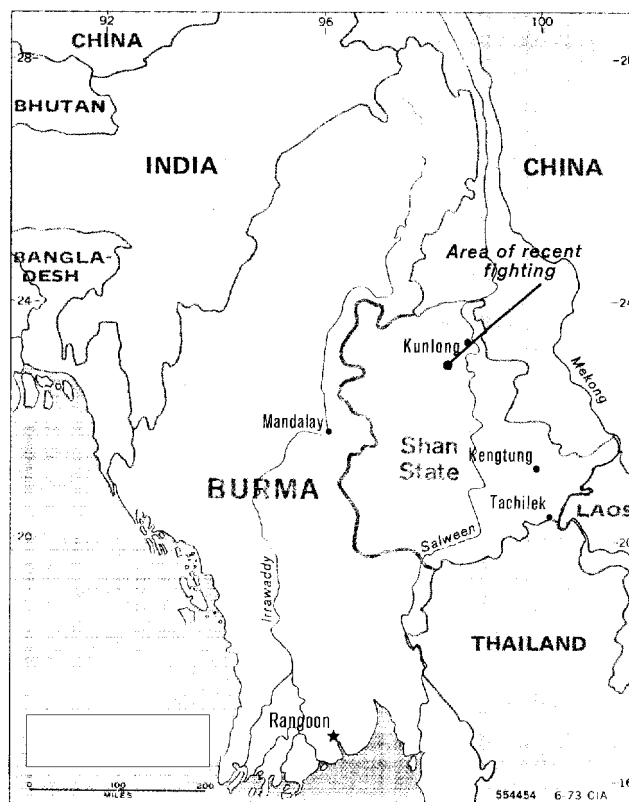
41 [As commendable as the government's intentions may be, the move against the KKY has done little more than aggravate Rangoon's already staggering insurgency problem. Additional strains have been put on the already overextended Burmese Army, impairing its efforts to halt the expansion of Burmese Communist insurgency into the southern portion of the Shan State. The campaign against the KKY has not reduced the flow of opium out of the Shan State. The bulk of the opium is grown in areas which are not under effective government control.]

40 [The "opium war" has spilled over into the foreign policy arena. Armed Chinese Nationalist units, also active in narcotics smuggling, have been cooperating with the KKY in the recent fighting against the Burmese government. In the past, Rangoon has ignored these units. This past week, however, Rangoon publicly condemned Taiwan for maintaining them in the Shan State, charging that they were meant to create misunderstanding between Rangoon and Peking. If armed cooperation between the KKY and the Chinese Nationalists continues, the Burmese Government might be tempted once



again to request Peking's assistance. In 1961 Chinese Communist troops, at Rangoon's invitation, moved across the border and forced most of the Chinese Nationalists, who had fled the mainland when the Communists took over, into north Thailand and Laos.

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**SECRET****THAILAND: STUDENTS ON THE MOVE**

42 In a culture where obedience to authority is a widely held ideal, it is not surprising that most Thai students have kept to their books and off the streets—at least until this past year. The massing last week of some 10,000 student protesters around Bangkok's Democracy Monument for over 24 hours was a scene new to Thailand, but one that is likely to become familiar.]

42 The issue that ostensibly sparked the demonstration was the dismissal of nine students from a local university and the subsequent roughing up of a number of students by university police. The resulting protest was quickly broadened to include general political demands, including a rapid return to constitutional rule. The speed with which student leaders mobilized large numbers of protesters clearly alarmed the government, which closed all Bangkok universities and placed the army and police on full alert. Government security officials have long believed that a well-organized student movement would pose a threat to the regime.]

42 Prime Minister Thanom, sensing widespread public sympathy for the students' cause and

under pressure from the King to avoid violence, met with the students and in an unusual step agreed to review the conditions that led to the demonstration. This brought temporary calm to Bangkok's streets, but by no means satisfied student leaders. Emotions are still running high, and plans are being drawn up for further massive demonstrations over the next few days.]

43 This is the fifth time in a year—the first was a protest against Japanese economic involvement—that mass action by Thai students has wrung real or apparent concessions from the government. There is a limit to the Thai Government's forbearance. So far the students have addressed issues on which the government could compromise without feeling threatened. Prime Minister Thanom has publicly warned the students that he will move quickly and forcefully to suppress any demonstrations that touch on matters affecting national security. If the students ignore this warning and launch their long-threatened campaign against US bases, the first serious confrontation between the government and students could occur. [REDACTED]

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**ROMANIA: FOCUS ON CEAUSESCU**

44 President Ceausescu's performance at the party plenum last week demonstrated yet again his mastery over the Romanian political scene. In fact, his control was so pervasive that it is likely to cause increased concern over the "cult of Ceausescu." In contrast to past plenums, no other presidium member but Ceausescu took the rostrum. The plenum also took the unprecedented step of elevating his wife, Elena, into the top party leadership. [REDACTED]

week of fawning tributes. [REDACTED]

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[Ceausescu shows little inclination to share the spotlight and a strong inclination to keep contenders, however distant, in their place. For example, he used the plenum to attack shortcomings in the Ministry of Education and in so doing criticized its minister, Paul Niculescu-Mizil, at one time considered a distant second to Ceausescu in regime standing.]

44 Ceausescu raised eyebrows last January when his 55th birthday became the occasion of a

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Ceausescu and wife

that the arrangement that provides for a US-manned NATO base at Keflavik must be renegotiated within six months. The government was forced to take this action when opponents of the base were able to claim that neither Iceland's membership in NATO nor the base agreement was of any help to Iceland in its fishing dispute with the UK and West Germany. If the base negotiations are unsuccessful, Icelandic moderates will be under severe pressure to require withdrawal from the base within a year. The Icelanders have begun this process with little thought to the economic consequences that will follow.]

47 [The Keflavik base contributes measurably to Iceland's high living standard. It put \$16.4 million into the island's economy last year. This is equivalent to about 2.5 percent of gross national product and 23 percent of Iceland's total foreign exchange holdings at the end of 1972. Without the earnings from the base, Iceland's foreign exchange reserves would have declined last year. Moreover, the base provides employment, directly or indirectly, for an estimated 3,260 Icelanders—nearly 4 percent of the total labor force.]

45 [Not content to rest on his plenum laurels, Ceausescu went on to dominate a session of the committee drafting the program for the 11th party congress, slated for next year. Ceausescu then reaffirmed his intent to take over direct supervision of the nation's economic development by presiding at the second session of the new and powerful Supreme Council for Economic and Social Development.]

47 [Closure of the base would be detrimental not only to the economy as a whole, but to the major Icelandic companies that service the base. They are primarily engaged in construction, transport, and fuel supply. US withdrawal would eliminate Iceland's single most effective resource for coping with emergencies, such as volcanic eruptions at Heimaey in the Westmann Islands earlier this year. The US military from the base provided the first assistance at the time.]

46 [Though a man of puritan personal habits, Ceausescu is vain and obviously unwilling to resist the temptation of encouraging the cult gathering around him. Though not yet of serious proportion, the cult could become a source of dissent in the top leadership.]

47 [All in all, the loss of the base would not trigger an economic disaster in Iceland, but it would be felt throughout the economy. It would mean that many years of investment would be required before equivalent foreign exchange earnings could be generated. A phased withdrawal over several years, rather than the short, 12-month period specified by Article VII, would ease adjustment problems.]

#### ICELAND: BASE ECONOMICS

47 [On 25 June, Iceland invoked Article VII of its defense agreement with the US; this means 48

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## ITALY

## RUMOR HAS IT

(49-55)  
 Now that President Leone has officially asked Mariano Rumor to form a new coalition, bargaining is under way on the terms for the next government. The selection of Rumor, who headed two center-left governments in the 1960s, was apparently decided earlier in the month at a late night, closed-door meeting of all Christian Democratic faction leaders, presided over by party veteran Amintore Fanfani. At this conclave, it was ordained that the party's national congress would call for the revival of the center-left coalition, that Fanfani would become the new party secretary, and that Rumor would try to form the new government. Although the party rank-and-file objected to this sort of summitry, the smooth implementation of these decisions indicates that Christian Democratic unity is holding, at least among the elite.

Rumor is moving to push negotiations through their most troublesome phase: the composition of a new government, its program, and the assignment of cabinet portfolios. He is trying to nail down an agreement among the same parties that formed the center-left coalitions of 1963-72: Christian Democrats, Socialists, Social Democrats, and Republicans.

Talk of a transition period, during which the Socialists would remain outside the coalition but would support it in parliament, has evaporated in favor of full and immediate Socialist participation. The Christian Democratic leadership wants this, and the Social Democrats approve. At least in public, the latter are soft-pedaling their usual insistence that the Socialists keep away from the Communists—a constant bone of contention in the last center-left governments. The Republican Party, whose withdrawal of support helped to topple the Andreotti government early this month, now talks of “full collaboration” with



Mariano Rumor

Rumor. Although hampered by a dissident minority, the Socialist leadership favors an immediate return to the government, and support for this action appears to be growing within the party.

The scarcity of political alternatives and the precarious economy have combined to give Rumor's negotiations an atmosphere of urgency. Party leaders involved appear to have concluded after the disappointing performance of Andreotti's centrist coalition that, if the extreme left and extreme right are to be kept in opposition, only a center-left alignment can provide the strength to govern. Barring major snags in the delicate bargaining ahead, Rumor may be ready

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to present a government to parliament by 10 July.]

**FADING LIRA**

(56-60)

The fall of Andreotti and the carryover of a weak caretaker government prompted the latest and deepest decline of the lira since the February devaluation of the dollar. An unfounded rumor that Governor Carli might resign from the Bank of Italy helped lead to a stampede out of lira. Added to the psychological uncertainties was heavy demand for foreign exchange in connection with a strong surge in imports—partly a result of Italy's economic recovery and partly an attempt to hedge against rising world prices and further depreciation of the lira.

By announcing an interim anti-inflationary package, Italy's caretaker government has moved to blunt the most recent speculative attack on the lira. The new measures are designed to increase the cost of speculative short-term credit and to direct funds into longer-term, more productive investment. The Bank of Italy boosted the maximum rate commercial banks pay for certain short-term advances. At the same time, commercial banks are being required to increase their purchases of both government and non-government bond issues. For the longer term, Rumor is advocating that the new center-left government administer "shock therapy" to the economy in order to prevent spiraling inflation and a weakened currency from undermining the recent upturn in the Italian economy.

The lira is probably undervalued currently, since its June decline does not reflect either the domestic economic reality of Italy's competitive trading position vis-a-vis its European trading partners. After labor disputes in the metal and mechanical goods industries were settled, industrial production began to register a significant

recovery. Businessmen are optimistic, and a rapid build-up in inventory is contributing to increased investment. Recognition of this trend and renewed confidence following the installation of a new government should help strengthen the lira further.

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**YUGOSLAVIA****KADAR IS COMING**

[Early next month Janos Kadar will visit Yugoslavia and thus demonstrate that the East Europeans have confidence in the durability of Belgrade's rapprochement with the USSR. Although Hungarian-Yugoslav relations have been generally good since the late 1960s, the Yugoslavs have been irritated by Kadar's reluctance to return Tito's visit to Hungary in February 1967. Last month, however, Polish party boss Gierek visited Yugoslavia, thus presumably breaking the ice for Kadar.]

**THE LOAN PUZZLE**

(NO SOURCE)  
[Negotiations on how to use the \$540-million credit the Soviets granted Yugoslavia last November are finally moving off dead center. Agreement on three projects and optimism that agreement on an additional 12 will be concluded later this summer emerged from the Yugoslav-Soviet economic talks in Moscow in mid-June. The difficulties in implementing the credit agreement have not affected other aspects of Soviet-Yugoslav economic relations. Agreements have been concluded in specialized industrial fields and, during the first four months, trade turnover increased by a healthy 42 percent over the same period last year.]

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## EC: A DEADLINE BEATEN

(63-69)

The EC Council met this week and succeeded in meeting a self-imposed deadline of 1 July for formulating an "overall approach" to the coming multilateral trade negotiations. The agreed "approach" will enable the community to speak "with a single voice" at the preparatory committee meeting for the trade negotiations in Geneva next month. The "approach" does not constitute a negotiating mandate for the EC Commission, either at Geneva or at the ministerial-level session in Tokyo that will inaugurate the negotiations this fall. The community debate that culminated in the council action was nevertheless difficult, largely because France sought to prevent the community from "giving away" anything in advance of the negotiations, especially in light of the indefinite status of US trade legislation. The commission, supported by most other members, wanted a statement that would defend community interests, but would at least appear to meet some US concerns.

Despite some French success in altering the tone of the "approach" and in gaining acceptance of more restrictive formulations in several places, the community position is not substantially less open than the initial commission proposals. Although no reference will be made in the community statement to abolishing tariffs completely, it will state that the EC aims at a significant lowering of tariffs. Elimination of tariffs apparently remains a possibility, presumably for specified types of goods. The contentious concept of "harmonization" of tariff levels remains an EC objective, however. The Nine also agreed that the community will leave itself free—as the US proposes to do—to raise tariffs.

On the disputed link between the trade negotiations and international monetary reform, the council agreed that the EC "will take progress in the monetary field into account in drawing up its final positions in the trade negotiations." The formulation is less restrictive than Paris had wanted. Although the link is vague, it does give the community an excuse for not implementing trade bargains in the absence of monetary reforms. Part of the community concern lies in trade advan-

tages it suspects the US will achieve through further depreciation of the dollar.

The section on agriculture caused the greatest difficulty, since the French and Irish were reluctant to accept any formulation that might call into question the "principles and mechanisms" of the common agricultural policy. The French succeeded in eliminating any reference to the reform of community structures, which is generally thought to be inevitable but which France wishes to keep out of international negotiations. In agriculture, community emphasis will be on international stabilization arrangements for commodities. Stabilization will apparently be made a condition for any "adaptation" of the EC's protectionist system of variable levies on farm products. These discussions on agriculture were probably affected by the changing farm trade picture. Noting that grain is getting short and prices are rising, the French and others argue against any haste to liberalize community protectionism and question the US ability to supply community needs.

The council last week was unable to make any progress toward loosening up the EC position on talks with the US over compensation for increases in tariffs resulting from the community's enlargement. The French blocked commission moves to reconsider the compensation problem, although some French officials had earlier indicated flexibility on the issue. The French apparently decided at higher levels, despite opposition from most of their EC partners, to maintain a recalcitrant position, perhaps so that the issue could be used for bargaining purposes during Foreign Minister Jobert's talks in Washington this week.

Early press reports, meanwhile, indicate that France's partners succeeded in at least putting off a decision to establish free-trade areas for the Maghreb states—a major concern of the US.

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**SECRET****EGYPT: ANOTHER DISAPPOINTMENT**

70 [The official view in Cairo, as reflected in the press, is that the Nixon-Brezhnev summit produced little of benefit to Egypt on the Middle East conflict. Commentators are saying that since the Arabs can no longer count on Soviet help, they must rely on their own devices to achieve a satisfactory resolution of the present impasse.]

70 [In the Egyptian eye the results were not unexpected, and their animus is aimed at the Soviets. For some weeks Cairo has been forecasting a further deterioration in Egyptian-Soviet relations occasioned by Soviet reluctance, in Cairo's opinion, to endanger detente with the US by standing firmly behind the Arabs. Although noting that the Middle East, alone of all issues discussed at the summit, "defied every attempt toward achieving agreement," Cairo minimizes the significance of this disagreement as a sign of Soviet support. Instead, Cairo takes the line that both the Soviets and the US are interested in the Middle East conflict more as it affects their bilateral relations than as it affects the local parties.]

71 [The Cairo editorialists conclude that the Middle East dispute is at impasse and the Soviets have forfeited any claim to predominant influence in the Arab world. The USSR is destined to play only a secondary role in the cause of liberation and victory"; the US will be able to exploit the atmosphere of conciliation to bring the Middle East "into the American fold."]

70 [In the same mood of discontent, President Sadat has on several occasions in recent weeks taken the Soviets to task for hewing too closely to the US line on negotiations and settlement efforts. Egyptians have made invidious comparisons between the "full support" Israel receives from the US and the "half support" the Arabs obtain from the USSR. The coming weeks will probably see an increase in Egyptian attacks on the Soviets. This will introduce new strains into Soviet-Egyptian relations, but a real break is unlikely.]

70 [The next stage in Cairo's campaign to build up pressure on Israel will be in the UN Security Council, where the debate on the Middle East—interrupted during the Nixon-Brezhnev talks—remains in recess. Cairo hopes for a favorable outcome in the Security Council to balance its disappointment with the summit.]

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**PERSIAN GULF: LOOKING FOR SECURITY**

80 [The Iranian foreign minister is due in Saudi Arabia on Sunday to discuss security in the Persian Gulf. He will sound out the Saudis on the possibility of a declaration, reserving to the littoral states the responsibility for maintaining stability in the Gulf area. The Iranian initiative, along with a separate Kuwaiti diplomatic effort, points up the growing consideration being given regional cooperation.]

73 [Tehran's idea of a Gulf pact has evolved through several stages, all aimed at securing some form of prior agreement that would provide a diplomatic umbrella for any unilateral Iranian intervention in defense of their interests in the Gulf. In Iran, the Shah failed to interest the smaller Gulf countries—Qatar, Bahrain, Oman, and the United Arab Emirates—in some sort of bilateral security arrangements.]

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80 [The Iranians, who have seemed undecided which proposal to present to the Saudis, will probably try out several versions: a joint declaration, some form of mutual assistance treaty, or a series of bilateral statements on Gulf security.]  
[The Saudis, who basically see the Iranians as rivals for area influence, will be polite but will be unwilling to commit themselves to any of the

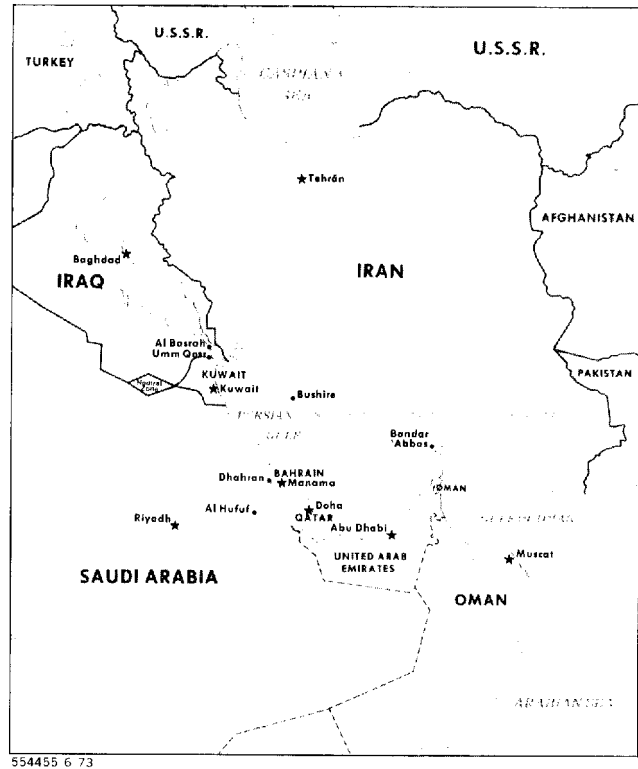
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proposals. Without Saudi concurrence, the smaller Gulf states are not expected to go along.]

81 [One element in the Shah's proposals could prove troublesome to the US and the UK. As shown to the British ambassador earlier this month, the draft joint declaration contained a statement asking the "great powers" to refrain from maintaining a military presence in the area. The statement is aimed primarily at the Soviet Union, but might be construed as critical of the support role of British officers in Oman and the small naval force the US keeps in Bahrain.] The Shah has long been a bit ambivalent in his approach to the Western role in the Gulf. He does not want the US to leave, but he is uneasy that the token US naval force might serve as an excuse for other countries to establish their own military forces in the area.]

82 [Meanwhile, Kuwait has lately launched an initiative of its own. Kuwait is wary of the threat from Iraq and interested in stealing a march on the Shah, with whom Kuwait has had trouble in the past. Early this month the Kuwaiti foreign minister visited Bahrain, Qatar, the United Arab Emirates, and Oman to explore ways of improving bilateral relations. He carried plans for economic and cultural cooperation.] He subsequently signed agreements with Bahrain providing for increased economic cooperation, trade promotion, and coordination of education. Other Gulf states are expected to sign comparable agreements with Kuwait. Kuwait dismisses prospects for multilateral political cooperation among the Arab states of the Gulf as not feasible while traditional rivalries continue.]



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89 [In Oman, the Kuwaiti foreign minister tried, apparently with at least some success, to soften Sultan Qabus' ire over the fact that Kuwait provides economic aid—in the form of hospitals and schools—to Oman's unfriendly neighbor, Yemen (Aden). Kuwait has apparently offered the same assistance to Sultan Qabus, but it will probably not be forthcoming until next year.]

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**SECRET****SYRIA-USSR: CAUSE FOR CELEBRATION**

(34-93)

Soviet and other foreign dignitaries will join Syrian officials at the remote northeastern town of Tabqa on 5 July. They will meet to celebrate the completion of the first phase of Damascus' most important economic undertaking, the \$2 billion Euphrates hydroelectric power and irrigation project. Although the Soviets are moving ahead swiftly on this project, their largest aid undertaking in Syria, problems could develop with the Iraqis over rights to Euphrates water.

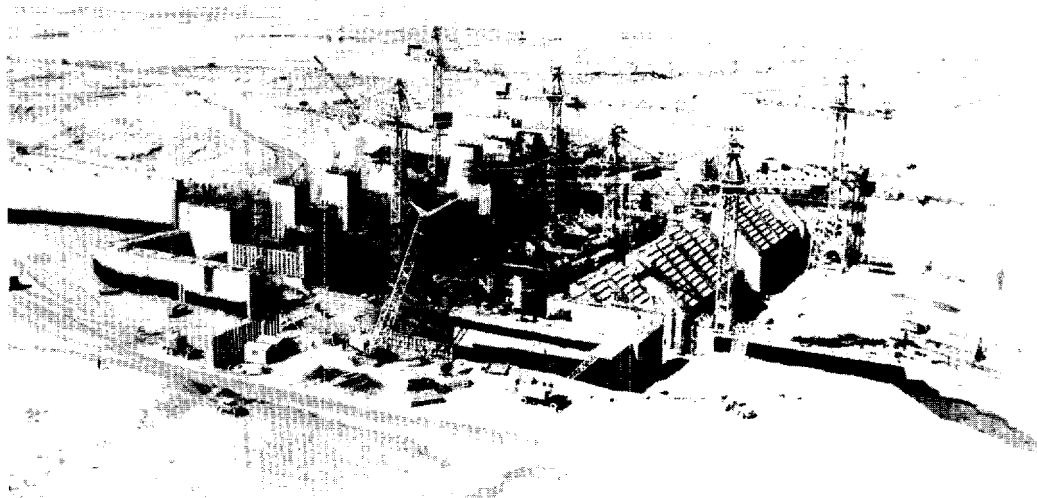
The Syrians on 5 July will begin to divert the Euphrates to fill a reservoir behind a nearly finished 200-foot-high dam, completing the first part of a multistage water control project that is to be stretched out over some 40 years. The dam itself is scheduled to be completed by the end of 1974, and the power plant is expected to be in partial operation soon. The Syrians anticipate that the project ultimately will have a capacity of 1.1 million kilowatts (four times the nation's present capacity) and irrigate 1.6 million acres of land (doubling the present acreage). Experience on Egypt's High Dam suggests, however, that reality will fall short of expectation.

The Euphrates project is the USSR's most important economic aid undertaking in Syria, and

its success would regain for the Soviets some of the prestige in the Arab world lost after their ouster from Egypt. The Soviets provided \$133 million in credits for the project in 1966 and an additional \$29 million for related activities in July 1972. The number of Soviet technicians working on the project rose from 800 in 1971 to 1,000 in 1973; some of these came from Egypt. The Soviets obviously hope to expand their participation in the remaining stages of the Euphrates project. They face competition from the Japanese who recently offered the Syrians a \$30-million loan to be used on the project. High Soviet officials, conceivably including Premier Kosygin, will be on hand at the 5 July celebrations.

Both the Soviets and the Syrians could experience some difficulties with the Iraqis, who apparently have not reached a settlement with Damascus and Ankara regarding the amounts of Euphrates water each will receive. Disagreement on this point between the two Baathist countries could well involve the Soviets, who have made studies for a similar dam on the Iraqi portion of the Euphrates and are trying to get Baghdad and Damascus to paper over their differences.

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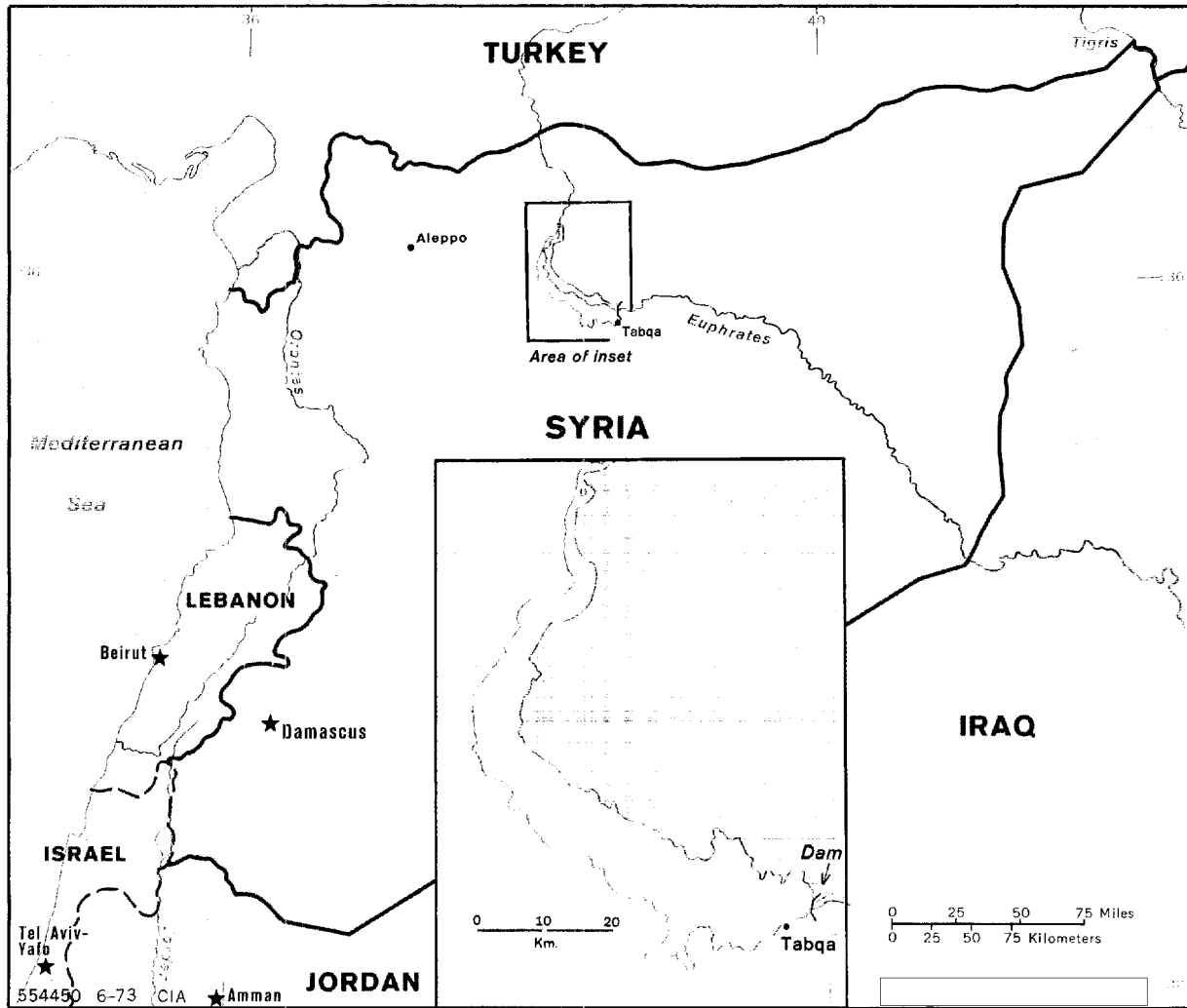
**Euphrates Dam**

under construction

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# AREA OF EUPHRATES DAM AND RESERVOIR



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## INDIA AND DIEGO GARCIA

104 Indian concern over great power rivalry in the Indian Ocean has been reflected in a recent spate of inflammatory press articles on the establishment in March of a US naval communications facility on the British-owned island of Diego Garcia. The Indian Government, in part because it wants to purchase US food grains on advantageous terms, is trying to keep the issue from

getting out of hand. Nonetheless, the government plans to respond to anticipated queries in Parliament, after it reconvenes next month, by conceding that the base contributes to tension in the area and promising to bring the matter before a UN committee.

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## ARGENTINA: ON THE RAMPAGE

108 [The past week has been marked by a dramatic upsurge in violence as terrorist groups seem more and more inclined to defy the new Peronist government. The wave of kidnaping, extortion, and assassination, together with charges and re-  
107 criminations between rival Peronist militants, has brought the country to the brink of anarchy and evoked a strong warning from both Peron and his presidential vassal, Hector Campora.]

107 [Taking his cue from Peron, Campora lashed out at those he accused of taking the law into their own hands. This was the strongest statement  
108 Campora has made since assuming office and it indicates that Peron's presence in Argentina has resulted in a considerable stiffening in the govern-  
109 ment's attitude toward extremism. To implement the President's tough words, the Interior Ministry announced that it would use force to evict young militants and employees who have occupied many government offices. This decision diverges sharply from the vacillation that characterized Campora's initial handling.]

107 [In his speech, Campora referred to Peron's return as "indispensable" and admitted obliquely  
108 that in his first month in power the country had  
109

lacked direction. Campora paid repeated homage to Peron, "our leader," and stated that Argentines now could take comfort in Peron's "precise directives." Campora's statements further confirm his subordinate role and deference to Peron's instructions.]

108 [Despite the speeches assailing violence and Peronist divisions, there has been no sign either will decline. Far leftist terrorists have pledged to  
109 continue their campaign against "imperialism" and have rejected Campora's appeal for a respite. Indeed, one terrorist group has stated, "Only someone who had sold out to imperialism would ask for a truce." Meanwhile, the week's tally of kidnapings climbed to a new high with several abductions reported in Buenos Aires and as many as six in Cordoba. A former Peronist congressman was assassinated, and a local official of the Ford Motor Company died from wounds inflicted during an attack by terrorists last month. Several foreign businessmen remain captives of the terrorists.]

108 [Divisions have grown sharper and wider within the badly splintered Peronist movement, especially between the militant youth sector and  
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Funeral for  
slain terrorist

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the moderate labor union wing. The Peronist youth council has alleged that "counterrevolutionaries" allied with the CIA and "traitorous labor unions" were responsible for the violent outburst that disrupted Peron's homecoming. The militant youth organization charged that several long-time Peronist stalwarts on the organizing committee sabotaged the event.]

106 [Compounding the government's difficulties, right-wing "death squads" are reportedly being formed to liquidate leftist extremists and Peronists alike. The emergence of such groups could lead to a three-way confrontation pitting the government, terrorists, and vigilante groups against each other. Under such circumstances, Argentina might find itself caught up in an ascending spiral of violence unless the government can move rapidly to back up its strong words with strong action.]

105 [Peron will be hard pressed to cope with the formidable problems facing the government and to keep competing Peronist factions in check. He is the key factor in stabilizing the situation, and unconfirmed reports claim he is ill. If he is and if he becomes incapacitated, then Argentina could wind up with a leadership vacuum that would invite more serious difficulties.]

## URUGUAY: WOOING THE LEFT

110 [After dissolving Congress this week, President Bordaberry and the military have moved quickly to gather the support of the government's frequent opponent, the left. Their approach appears to be a temporary expedient rather than a clear indication of the government's future path.]

110 [To prevent serious labor trouble from developing, the interior minister, an army colonel

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on active duty, has met with the Communist-dominated National Convention of Workers to assure it that the military-dominated government that emerged from the dissolution will not be anti-labor. The confederation, Uruguay's strongest labor group, had shut down 80 percent of business following the closing of the national legislature. The interior minister's overture, coupled with a government promise to grant workers a 50-percent wage increase, is likely to gain labor's cooperation.]

111 [A dialogue has also been opened with the Communist Party and the leftist student groups that have frequently demonstrated against the government. The left, especially labor, has been a constant thorn in the side of the government, especially when it sought to impose austerity measures to stimulate an economic recovery.]

[Effective opposition by deposed congressmen appears to have been blocked by restrictions on the right of public assembly and by forbidding the media to criticize executive actions or ascribe dictatorial powers to the President.]

111 [To make the closing of Congress more palatable to the public, a State Council will be established. Though it will give civilians as many seats as the military, real power will continue to rest with the military, which is probably why the government is having some trouble in finding prominent figures to take positions on the council. The council's primary function is likely to be the drawing up of constitutional reforms to govern the next elections, scheduled to be held in 1976.]

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## BOLIVIA: A FUTURE FOR POLITICS

(112 - 117)

(President Banzer's announcement on 23 June that the nation would return to a constitutional form of government next year has received general approval. His scenario calls for the direct popular election of a national assembly next February; the assembly would be charged with revising the constitution and electing Banzer president. Banzer would then begin a four-year term in August 1974, and the assembly would become the first legislature to meet in Bolivia in five years. He seems to have a controlled Brazilian-style election in mind, and he has no intention of allowing his opponents to win.

Banzer may be less concerned with the niceties of constitutional government than he is with providing a diversion from present and future economic problems.

The campaign could develop a dynamism of its own that could ultimately embarrass the President.

A more immediate political problem for Banzer is the growing division within the Bolivian Socialist Falange, the main right-wing party supporting his government. The position of Foreign Minister Gutierrez as chief of the Falange is becoming less tenable each week, as more and more of its regional organizations renounce their support of his leadership and come out in favor of his arch-rival, Carlos Valverde.

With the backing of a majority of the Falangist departmental organizations but probably with only a minority of the membership, Valverde has called a rump convention in July to acclaim him sole leader. Gutierrez had planned to carry out a similar maneuver in August. Banzer has a healthy suspicion of Valverde



President Banzer

While Banzer's economic woes can be traced in part to his policy failures, his political problems are a product of his success. The glue that held the coalition together was fear of the leftist opposition, and the nearly complete destruction of the extreme left as a political force in the past 18 months gives the fundamental differences within the governing coalition a new vigor.

## GUYANA: ELECTIONS

<sup>NO COMMENT</sup>  
[Racially inspired campaign violence early this week left at least six persons, including two police officers, dead. Tempers are high, and further violence between rival black and East Indian groups is likely as the 16 July parliamentary election date nears.]

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## PERU: A GENERAL RETURNS

121 President Velasco's extraordinary recovery has placed the succession problem in temporary limbo, but the months of uncertainty have compounded domestic problems and disagreements on basic policy and long range goals.

120 Recent labor strife has highlighted the inadequacy of the regime's disjointed labor policy and demonstrated once again that the government lacks an independent base of popular support. The Social Mobilization System, designed to build such a base, is a shambles. Rent by internal dissension, it is under attack by moderates within the government as well as by its many enemies without.

121 Velasco returns to find that his absence has widened the tactical and ideological rifts between moderate officers who favor a period of consolidation and radicals who want to push ahead with new revolutionary initiatives. Velasco's mediating skills are sorely needed, but no one can tell how long he will be able to hold up under the strain.

121 Chances that Velasco will resign on Independence Day (28 July) appear to be fading, but such a move on the fifth anniversary of his accession to the presidency (3 October) is still possible.

The need for armed forces unity is generally recognized by both factions and is likely to keep the succession process peaceful.

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